(e) *Rehabilitation and transfer of units.* (1) The unit must be free from any defects that pose a danger to life, health, or safety before transfer of an ownership interest in the unit to the family or occupancy of a unit by an eligible family under a lease-purchase agreement. The recipient must inspect, or ensure inspection of, each unit to determine that it does not pose an imminent threat to the life, health, or safety of residents and that the property has passed recent fire and other applicable safety inspections conducted by appropriate local officials.

(2) The unit must, not later than 2 years after transfer of an ownership interest in the unit to an eligible family, or execution of a lease-purchase agreement for the unit, meet minimum rehabilitation standards under paragraph (d)(1) of this section. The recipient must inspect, or ensure inspection of, each unit to determine that it meets the rehabilitation standards required under paragraph (d)(1) of this section.

§ 572.105 Financing the purchase of properties by eligible families.

(a) *Types of financing.* (1) Financing may include use of the implementation grant to permit transfer of an ownership interest in a unit to an eligible family for less than fair market value or with assisted financing; or other sources of financing (subject to requirements that apply to those sources), including, but not limited to, conventional mortgage loans, mortgage loans insured under title II of the National Housing Act, and mortgage loans under other available programs, such as Veterans Administration (VA), Farmers Home Administration (FmHA), and Resolution Trust Corporation (RTC) seller-assisted financing.

(2) *FHA single family mortgage insurance requirements.* All regulatory requirements and underwriting procedures established for FHA single family mortgage insurance apply to mortgages insured by FHA on properties assisted under the HOPE 3 program. Exceptions in the regulations specifically for homebuyers under the HOPE 3 program are:

(i) The eligible family/mortgagor may obtain a loan for the down payment from a corporation or another person under conditions satisfactory to HUD (24 CFR 203.19(b) and 234.28(c));

(ii) A second mortgage may be placed against the property even though the entity holding a second mortgage is not a Federal, State, or local government agency, if the entity is designated in the homeownership plan of an applicant for an implementation grant (24 CFR 203.32(b) and 234.55(b)); and

(iii) Certain restrictions on conveyance may be permissible. Property with restrictions that do not comply with FHA regulations will be ineligible for FHA mortgage insurance, notwithstanding HUD approval under § 572.130(e).

(b) *Financial assistance to homebuyers.* Recipients may provide assistance to, or on behalf of, eligible families to make acquisition and rehabilitation of eligible properties affordable. This may include interest rate reductions (''interest rate buy-downs''), payment of all or a portion of closing costs, down payments, mortgage insurance premiums, and other expenses, and other forms of assistance approved by HUD. No mechanisms to financially assist homebuyers that would require grant recipients to make lump sum deposits of HOPE 3 grant funds will be permitted.

§ 572.110 Identifying and selecting eligible families for homeownership.

(a) *Selection procedures.* (1) Recipients must establish written equitable procedures for identifying and selecting eligible families to participate in the homeownership program, consistent with the affordability standards in § 572.120. Except for Indian tribes and IHAs as described in § 572.405(a)(2), the recipient must have a procedure to carry out its affirmative fair marketing responsibilities, described in § 572.405(e), that apply whenever homeownership opportunities are made available to other than current residents of the property. These procedures must include specific steps to inform potential applicants and solicit applications from eligible families in the housing market area who are least likely to apply for the program without special outreach.

(2) The written selection procedures must provide for selection only of families that are creditworthy and have the financial capacity to handle the anticipated costs of homeownership. Any family determined not to have paid the appropriate amount of tenant contribution under a HUD housing assistance program must be required to resolve any deficiency before being selected for homeownership.

(b) *Preferences.* (1) In making selections for the program, each recipient must give first preference to qualified residents who legally occupied units on the date the recipient's application for the implementation grant was submitted to HUD and to persons residing in the units at the time the properties are selected. If the unit occupied by a former resident on the date the implementation grant application was submitted to HUD is occupied by a different resident at the time of property selection, a vacant unit under this program must be offered to the former resident at the earliest possible time.

(2) In the case of vacant properties for which the preferences in paragraph (b)(1) of this section do not apply, recipients must give a first preference to otherwise qualified eligible families who reside in public or Indian housing under the 1937 Act. Recipients must use whatever measures are considered appropriate to inform residents of public and Indian housing developments within the housing market area of the preference, such as informing resident councils, PHAs, and IHAs, or other appropriate measures.

(3) Recipients must give a second preference to otherwise qualified eligible families who have completed participation in one of the following economic self-sufficiency programs: Project Self-Sufficiency, Operation Bootstrap, Family Self-Sufficiency, JOBS, and any other Federal, State, territorial, or local program approved by HUD as equivalent.

(c) *Responsibilities of selected families.* (1) Each eligible family selected for homeownership must certify at the time it acquires an ownership interest in the unit (or enters into a lease-purchase agreement for the unit) that it intends to occupy the unit as its principal residence during the six-year period from the date it acquires ownership interest in the unit, unless the recipient determines that the family is required to move outside the market area due to a change in employment or an emergency situation or the family sells its ownership interest. The family may permit others to rent space (such as a basement area or a spare bedroom) in the unit occupied by the family as its principal residence. (See § 572.115(c) concerning the rental of units in a multi-unit property purchased by a homebuyer under this part.)

(2) Any homebuyer that violates the agreement made under paragraph (c)(1) of this section shall be subject to penalties as provided in the transfer documents, as prescribed by HUD.

(3) Each eligible family selected for the program must participate in counseling and training of homebuyers and homeowners regarding the general rights and responsibilities of homeownership.

(d) *Social security numbers; wage and claims information.* As a condition of eligibility for homeownership under this part, at the time a family applies for howeownership, the recipient (or other appropriate entity) must:

(1) Require the family to meet the requirements for the disclosure and verification of social security numbers, as provided by part 5, subpart B, of this title; and

(2) Require the family to sign and submit consent forms for the obtaining of wage and claim information from State Wage Information Collection Agencies, as provided by part 5, subpart B, of this title.

(e) *Notification of rejected applicant families.* Recipients or another appropriate entity must promptly notify in writing any rejected applicant family of the grounds for any rejection.

[58 FR 36526, July 7, 1993, as amended at 61 FR 11118, Mar. 18, 1996; 61 FR 48797, Sept. 16, 1996]

§ 572.115 Transfer of homeownership interests.

(a) *Deadline for transfer.* (1) All units in eligible properties (including in rem properties) must be transferred to eligible families within two years of the effective date of the implementation grant agreement, except as otherwise